Application of California-American Water Company (U210W), to Decrease Revenues for Water Service in its Coronado District by (\$73,100) or (0.46%) in 2008, and Increase Revenues by \$266,200 or 1.67% in 2009, and \$260,900 or 1.61% in 2010.

Application 07-01-036 (Filed January 22, 2007)

And Related Matters.

Application 07-01-037 Application 07-01-038 Application 07-01-039

REPLY COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE PROPOSED DECISION

I. INTRODUCTION

Pursuant to Rule 14.3 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure ("Rules"), the Division of Ratepayer Advocates ("DRA") respectfully submits its Reply Comments on the proposed decision of Administrative Law Judge ("ALJ") Rochester, entitled, "Opinion Adopting the Revenue Requirement for California-America Water Company's ("Cal Am") Coronado and Village Districts" ("PD"), which was released for comment on February 11, 2008. DRA responds to the Opening Comments filed by California-America Water Company ("Opening Comments") on March 3, 2008. Silence on any subject should not be interpreted as assent.

II. THE PROPOSED DECISION'S RETURN ON EQUITY ANALYSIS IS SOUND AND CONSISTENT WITH COMMISSION PRACTICE

In its Opening Comments, Cal Am disagrees with the PD's Return on Equity ("ROE") recommendation, contending that the PD's ROE analysis is flawed.¹ DRA agrees with PD's recommendation that an ROE of 10.15 is fair and reasonable.²

First, Cal Am challenges the PD's assertion that the recommended ROE of 10.15% "is comparable to the returns on investments of like companies." Cal Am claims that the recommended ROE of 10.15% "is lower than the return the Commission has recently authorized for other investor owned water utilities." However, Cal Am's contention is inaccurate.

As indicated by DRA in its Reply Brief, the Commission has recently authorized ROEs lower than 10.15% on several occasions.⁵ In August 2006, the Commission authorized an ROE of 10.0% for Suburban Water Company.⁶ The Commission also authorized an ROE of 10.13% for San Jose Water Company in November 2006.⁷ Lastly, in July 2007, the Commission authorized an ROE of 9.90% for San Gabriel Water Company.⁸

Additionally, in two more recent decisions, the Commission authorized ROEs that were also below 10.15%. In the recent decision regarding Cal Am's Los Angeles district, the Commission authorized an ROE of 10.0%. Also, in

¹ Cal Am's Opening Comments, pp. 1-2.

² PD at 20.

³ PD at 21.

⁴ Cal Am's Opening Comments, p. 3.

⁵ DRA's Reply Brief, p. 6.

⁶ D.06-08-017, 2006 Cal. PUC LEXIS 369, *26.

⁷ D.06-11-015, 2006 Cal. PUC LEXIS 489, *55.

⁸ D.07-04-046, 2007 Cal. PUC LEXIS 349, *82.

⁹ D.07-08-030, 2007 Cal. PUC LEXIS 444, *43.

December 2007, the Commission authorized an ROE of 10.1% for Golden State Water Company.¹⁰

As apparent from the decisions cited above, the Commission has recently authorized an ROE of less than 10.15% on multiple occasions. Although, the Commission has authorized a higher ROE on some occasions, the PD's assertion that an ROE of 10.15% is fair, reasonable and comparable to the ROEs of other investor owned water utilities is supported by the record and Commission decisions.

Second, Cal Am's argument that the PD's rejection of the proposed leverage adjustment is "invalid" lacks any support. Cal Am claims that the credit rating of American Water's subsidiaries cannot be sustained unless a higher ROE is adopted to recognize its leveraged capital structure. However, Cal Am has maintained a leveraged capital structure for some time. Despite its continued use of a leveraged capital structure, Cal Am's parent company, American Water Capital Company, is rated a healthy A- by Standard and Poors rating agency.

Even though Cal Am has long had a leveraged capital structure, the ratings agency nonetheless continues to rate it as an investment grade firm. If the leveraged capital structure is as risky as Cal Am claims, the ratings agency would have downgraded the credit rating of American Water Capital Company by now.

Lastly, Cal Am's assertion that the PD erred by not addressing the capital asset pricing model ("CAPM") analysis and VS growth lacks merit and should be disregarded. As stated in the PD, the Commission examined various factors including "the parties financial models, interest rates, authorized ROEs for other

¹⁰ D.07-11-034, 2007 Cal. PUC LEXIS 504, *7.

¹¹ Cal Am's Opening Comments, p. 3.

¹² D.00-03-053, 2000 Cal. PUC LEXIS 229, *56; D.03-02-030, 2003 Cal. PUC LEXIS 121, *85; D.05-09-020, 2005 Cal. PUC LEXIS 342, *35; D.07-08-030, 2007 Cal. PUC LEXIS 444, *19.

¹³ DRA Opening Brief, pp. 9-10.

¹⁴ Id. at 4.

companies, past earnings, and credit worthiness of Cal Am" to determine the appropriate ROE.¹⁵ Implicit in this statement, is the idea that the Commission considered Cal Am's CAPM and SV growth factors in its analysis.

As the Commission has stated previously, "[d]etermining a fair and reasonable ROE that meets constitutional standards is a matter of informed judgment." The Commission does not rely solely on the analytical modeling results of any one party or any specific model application. The Commission is not required to make a definitive judgment on the merits of each and every component of the parties' ROE analysis when making its determination as to an appropriate ROE.

III. CONCLUSION

For the reasons discussed above, DRA urges the Commission to adopt the Proposed Decision with the modifications discussed herein and in DRA's Opening comments.

Respectfully submitted,

/s/ Marcelo Poirier

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March 10, 2008

¹⁵ PD at 21.

¹⁶ D.07-08-030, 2007 Cal. PUC LEXIS 444, *36.

¹⁷ *Id*.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of REPLY COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE PROPOSED DECISION in A.07-01-036 et al. by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

[] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on March 10, 2008 at San Francisco, California.

/s/ ALBERT HILL
Albert Hill

NOTICE

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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